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To the next 25

Celebrating its silver anniversary, eSecLending CEO Craig Starble reviews the firm's transformation over the years

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To the next 25: Leading with experience, evolving with purpose

Celebrating its silver anniversary, eSecLending CEO Craig Starble sits down with Carmella Haswell to look at the firm's transformation from an auction specialist to "one of the largest" GC lenders in the marketplace

Entering the market as a disrupter 25 years ago, eSecLending has faced the highs and lows of being an independent company, and has subsequently found its foothold in the industry — one that is stronger now more than ever.

While the securities finance space has faced much consolidation over the past 10 years, where participants have exited or reduced their footprint, eSecLending says its growth trajectory has scaled, transforming into a mainstream business that has become increasingly collaborative and a welcomed partner in the marketplace.

The firm began as an auction specialist, accessing the market through an auction process — and while this stands true today, eSecLending notes it is one of the few businesses to do so. Following the clients' voice, the company evolved to be "one of the largest" general collateral (GC) lenders in the marketplace.

Staying true to its nature, the business remains an independent securities financing firm, solely focused on this area of the market for almost three decades. According to eSecLending CEO Craig Starble, this way forward has been "challenging, unconventional,

and incredibly compelling — something we at eSec take great pride in".

Being private-equity-owned has helped to shape the business to what it is today. Starble comments: "We understand the value of being nimble and the challenges of managing an independent company without a big balance sheet.

While Starble believes its competitors "run great programmes", he notes that eSecLending stands out because it is not held back by bureaucracy. While the firm's competitors run transactions on a programme-wide basis, eSecLending transacts on a client-by-client basis.

Back to the 80s

Leading the development and implementation of eSecLending's overall strategy, Starble joined the business in 2013, and holds an impressive 40-year career in financial services.

Reviewing the evolution of the market over this time, Starble laughs, stating that the obvious changes are technology and efficiency "at a daunting level". When he began his career on the trading floor, he and fellow colleagues shared computers. Technology came into the trading room floor via the brokerage community, which, he explains, "would put a hard wire into the trading floor" so that traders would get their Bloomberg or Reuters equivalent of the day.

Reminiscing, Starble explores: "Back then, the work was incredibly operations-focused because everything was so manual. When I first started, we literally walked securities across the street to deliver them — that sounds almost unbelievable now. Clearly, the process had to evolve. But what's interesting about securities lending is that it has maintained its over-the-counter nature, one of the few markets to maintain that."

Starble 'grew up' working in a large New England bank, where he was part of the Treasury group. The transactions back then — mostly the funding transactions — still occur today and is an area of the market that is not so dissimilar from a few decades ago. However, operations teams are now clearing 1,000 times the number of transactions that Starble and his team previously cleared in a day.

"Our business is still one that requires a lot of expertise on the operations side, about half of our employees are in operations roles," he explains. "Even many on our trading and client service teams, who traditionally wouldn't be involved in operations, would tell you they are. It's not the same role, of course, but it's a participatory one — they're actively engaged in the process."

Counting through the crises experienced in the financial world, Starble indicates that the 1987 crash, the 2008 crisis, and Covid-19 downturn were all caused by liquidity and transaction problems. Each one had a very different catalyst for the problem, he notes, but the end result was it created huge stress in the banking environment.

"Today, because of all this, the banks are very well structured and very well capitalised. When we have another challenge in the marketplace, it won't have the same outcome. It still may be very volatile and hectic, but it won't have the same default outcome that we've seen in the past," he states.

Starble expresses pride in the company's leadership, highlighting that key members of the current management team were actively involved in successfully navigating the 2008 securities lending crisis — and remain in place today in risk, trading, and operational roles.

"The team that navigated the 2008 crisis for eSec is still here today," Starble recalls. "I was managing State Street's programme back then. Many of the people working at eSec were either with the firm at the time or worked alongside me at State Street. We experienced that crisis firsthand and learned how to lead through it."

Concluding his thoughts on how far the industry has come, Starble adds: "That's the benefit of being 40 years in the industry, you see a few things — experience is a big factor in what we do and how the market reacts. We're not right all the time when it comes to predicting where things are going, but we know how to react once it happens."

The client

The entrepreneurial environment is driving excitement for clients of eSecLending, according to Starble. With a core focus on its clientele, the firm is committed to its ability to listen, understand, and put the best interests of its clients first.

"We've become the expert for large asset managers, pension funds, and global fund managers. We have five of the top six US pension

I like to say that I grew up at eSec. I started as an analyst in our fund accounting group after undergrad and I have been learning ever since. eSec presents its employees with advancement opportunities like no other and you truly gain invaluable knowledge along the way.

Mike Brooks, SVP – Short Term Investment Management and Fixed Income Trading, joined in 2016

plans, and eight of the top 15 pension plans. From the beginning, clients realised that we bring something very special to them, which is an extreme focus on their needs, product, portfolio, and their programme."

Reflecting on the firm's evolution, Starble believes the one aspect that has changed for eSecLending is client involvement — in particular, why they want to participate. Clients have always focused on creating intrinsic value for lending and that remains the case today. However, many clients are now also increasingly focused on supporting leverage and funding for their institutions.

He also notes that pension funds are viewing their business as a central treasury function and are asking themselves: how do I create leverage for our plan? How do we satisfy and buy assets and create an asset portfolio using securities lending cash?

Focusing on the firm's evolving large and sophisticated institutional investor clients, Starble indicates clients are becoming more heavily engaged in their securities lending programmes. Previously, they took on more of an oversight focus, now their clients are more involved in directing trade opportunities and financing strategies where eSecLending executes and administers the programme on their behalf. Starble refers to this as client directed agency programmes.

"Our clients have been more involved over the past 25 years than most. Sophisticated clients want to be participating in the market, and they want control over the specific trading strategies," Starble explains. "We want to attract the large, sophisticated pensions, sovereigns, insurance companies, or the mutual funds that may have valuable assets."

Analysing clients' eagerness to be more involved, Starble says it is a combination of competition and creating programmes for the financial market of today.

He continues: "We may be creating some of that competitive environment because some of our clients have multiple agents, so they're checking in. Competition between lenders is clearly creating performance, and some clients are comfortable having multiple agent lenders because there's enough business to go around, and they can use that appropriately to drive performance. I think it's made a big difference in how clients have evolved."

The eSecLending model today is one of separate account management, dual focus of intrinsic value, and funding and leverage for those clients who desire it. The firm's philosophy, according to Starble, is putting clients' assets into an auction and extracting as much value as possible. For the portfolios which do not fit the exclusive model, they remain actively traded in a discretionary programme.

Almost every facet of the business has changed and evolved in the 20+ years that I have been at eSecLending. Where we were once thought of as an 'auction house' that was limited to managing exclusive arrangements, we have evolved into a provider of a broader suite of securities lending services rivaling those offered by traditional custody agent lenders.

Jay Lovejoy, General Counsel, joined in 2004

I have stayed at eSecLending for over 20 years because of the incredible people I work with. I feel fortunate to be surrounded by the best and the brightest, which makes coming to work each day truly enjoyable.

Jill Carey, Chief Financial Officer, joined in 2002

In the last 10 years, eSecLending has "grown dramatically" on the discretionary front. Since joining, Starble says balances have quadrupled because the firm's clients have focused on general collateral, funding trades, and non-cash collateral trades. For clients who desire it, eSecLending is lending securities versus cash collateral. Starble insists: "Instead of investing in short term products, we can give that cash back to the client and they can use the cash either to invest in their own funds or other strategies, including supporting broader treasury management functions such as liquidity planning or leverage."

eSecLending has always provided counterparty default indemnification through an insurance policy, which is both unique and beneficial for clients. Regulations have not negatively impacted eSecLending in the same way as they have traditional banks and broker/dealers, so eSecLending has been able to grow balances without having to change its indemnification model.

Starble explores: "eSec can do high notional, low spread transactions for clients. Whereas some of our competitors are constrained by the capital implications of providing indemnification so they limit the amount of high volume, low spread loans they do because it doesn't make enough revenue to satisfy the RWA hurdle."

"Our ability and willingness to support high volume programmes is one of the things that differentiates us in today's market. We also still rely heavily on the auction process which has always differentiated us from a performance perspective. Those are two pillars of what our model looks like today — intrinsic value via the auction process and client focused funding — and when you add in the heavy client service-focused model, it is a highly competitive business."

The people perspective

Since joining, Starble has been instrumental in building out the eSecLending team, some of which have been dedicated to the firm for well over 15 years. "From a people perspective, I'm extremely proud of the fact that we have the best collection of people in the industry, whether it's executives, middle level or entry level people."

He adds: "It's important to understand the history and the vision of what the company was built on, because I believed in it when I came in and participated in acquiring the company. I believe in the vision of separate account management, heavily focused on client needs and not running macro programmes."

Leading the company as chief executive, Stable highlights that, unlike

In my time at eSecLending our core model has remained largely the same with the focus on delivering a high quality, tailored product to the largest, most sophisticated asset owners. But we have also been a resource for our industry partners on both the client and borrower sides when industry shifts have occurred and we've been well positioned to accommodate the changing needs.

Nora Bowman, Senior Vice President, Client Relationship Management, joined in 2015

eSecLending boasts a small company culture where 'everybody knows your name' and one in which all departments are singularly focused on our corporate goals and working in an overlapping and/or parallel fashion as to achieve those goals, in contrast to other companies which often focus on individual group strategy or singular product offerings.

L. Brian Christopher, Managing Director, Middle Office and Operations, joined in 2005

in larger companies, smaller firms like eSecLending require employees to be innovative, to be collaborative, and to want to be able to do "a significant amount of different things" within the company.

While it is a harder environment to partake in, Starble ensures that it is more rewarding. "Those people get to make decisions that they never would be able to make in big companies on their own," he explains.

For eSecLending, the firm is positioned to do two main things: securities finance and cash reinvestment activity. While there have been new players in the marketplace, consolidation "is always going to happen", with some firms choosing to exit the lending business over the past five years. "We're seeing it a lot on the fintech side of securities lending, among data providers and trading platforms and I would expect more going forward."

Looking forward

Rounding off the discussion, Starble looks ahead to what the firm will be up to next. Quite simply, eSecLending will continue to do what it is doing now — listening to clients, becoming more efficient, and creating solutions for the broker-dealer community. He notes: "It sounds trite, but it's the reality."

In his analysis, Starble finds that technology will continue to evolve, whether it be blockchain structures or digital assets — both of which the firm is keen to participate in "when the market allows for it". Before this step can be taken, Starble is adamant that it must first happen at the clearing depositories, then it must happen at the custodian, and only then can the firm participate and connect into that technology as it is developed.

He anticipates a continued and heavy focus on automation for most of eSecLending's transactions. However, the business will remain an over-the-counter (OTC) market for the valuable securities — "and I believe that it should be".

For Starble, value is created by having that OTC nature of the market. And if value is created, it is created for the owners of those assets. "Most exchanges exist because it's more efficient and cheaper and better for the beneficial owner, for that exchange to exist."

Putting forth his future prediction, Starble indicates that there will be different uses for securities finance transactions, whether it is today where there is a focus on funding and leverage, or tomorrow it may be some additional benefit. He adds: "Because we're part of the capital market structure and clients are willing to look at this business as one of both intrinsic value creation and funding, there's a lot of opportunities for it going forward." ■

One of the things that has kept me at eSec since the beginning is the shared mission of the organisation. Despite the evolution and maturity that the company has undergone over the past 25 years, there's still a feeling of being the underdog, the disruptor, and of taking on the heavy weights of the industry.

Bill Leonard, Chief Information Security Officer, joined in 2000

eSecLending

Celebrating 25 Years

25 Years Ago

eSecLending was built to manage the largest and most sophisticated global beneficial owners' securities lending programmes, bringing a bold, client-first approach to what was available in the marketplace at the time.

Today

we continue to lead across the entire securities finance spectrum, with the same unwavering commitment to innovation, risk management, and best execution, delivering what clients expect and demand, only better.

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